

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, April 18, 2008
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, called the meeting to order at 8:31 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Michael Townsend, Chair
Dr. Keith Meredith, Vice Chair
Mr. Dave Byers
Mr. Tom Connelly
Mr. Jaime Gutierrez (via teleconference)
Mr. Chris Harris
Mr. Jim McLaughlin
Mr. Larry Trachtenberg
Mr. Steve Zeman

A quorum was present for the purpose of conducting business.

2. Presentation Regarding the PRIDE Award for Professionalism

Mr. Paul Matson addressed the Board regarding the PRIDE Award for Professionalism. Mr. Matson stated that the ASRS has changed the manner in which it recognizes its employees; essentially changing from an 'Employee of the Year,' 'Manager of the Year,' and 'Team of the Year' concept to recognizing employees who exemplify various PRIDE (Professionalism, Results, Improvement, Diversity, Excellence) characteristics throughout the year.

Mr. Matson presented the PRIDE Professionalism Award to Mr. Mike Hostetler.

3. Approval of the Consent Agenda

Motion: Mr. Steve Zeman moved to approve Refunds and Retirements for the month of February, 2008;

And

Approve System Transfers for the month of March, 2008;

And

Approve the minutes of the March 21, 2008, Regular, Special and Executive Sessions of the ASRS Board.

Dr. Keith Meredith seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. John Gustafson

Mr. Tom McClory, Assistant Attorney General, addressed the Board regarding Mr. John Gustafson's appeal. Mr. McClory stated that while there is no question of Mr. Gustafson's disability, the ASRS has no legal authority to grant him LTD due to the circumstances of his situation.

Mr. Gustafson addressed the Board and stated that while he understands the situation he feels it is not fair and that the rules did not foresee his situation.

Motion: Mr. Steve Zeman moved to accept the ruling of the Administrative Law Judge and correct the Recommended Decision by changing ASRS to ADOC on page 3, paragraph 14, line 3; and ASRS to Public Safety Personnel Retirement System/Fund Manager on page 4, paragraph 28.

Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions and 0 excused, the motion was approved.

Mr. Jaime Gutierrez left the meeting at 9:20 a.m.

5. Presentation, Discussion and Appropriate Action Regarding 2008 ASRS Legislation

Mr. Pat Klein, Assistant Director, External Affairs Division, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2008 ASRS Legislation. Ms. Sorensen gave a brief update highlighting bills of interest.

6. Presentation, Discussion and Appropriate Action Regarding Mellon Capital's Global Tactical Asset Allocation (GTAA) Product

Mr. Gary Dokes, Chief Investment Officer, Mr. Dan Kapanak, Manager of Investment Strategies, and Mr. Terry Dennison, Worldwide Partner, Mercer, addressed the Board regarding Mellon Capital's Global Tactical Asset Allocation (GTAA) Product. Mr. Dokes stated that at the March, 2008, Investment Committee (IC) meeting, the GTAA Manager Search Committee recommended to the IC the hiring of Mellon Capital and Deutsche Bank as new ASRS GTAA managers. Both managers were approved by the IC for subsequent recommendation to the Board.

Between the IC and Board meetings in March, supplemental Mercer research notes were sent to the ASRS following a scheduled Mercer GTAA product strategy meeting with Mellon Capital Management. Given that the research notes raised some concerns regarding Mellon Capital's limited future research initiatives and the leadership of their new CIO, the ASRS CIO, with the approval of the Director and IC Chair, modified the recommendation to the Board to solely request the approval to hire Deutsche Bank. The ASRS CIO informed the Board that a subsequent recommendation to the IC and Board to hire or not hire Mellon Capital would be predicated on further ASRS staff discussions with Mercer and Mellon Capital.

On March 27, 2008, the Director, CIO, IMD staff, and Mercer had a conference call with the Chief Executive Officer (CEO) and new CIO of Mellon Capital. As a result, the consensus was that the new CIO demonstrated potential in terms of generating new research ideas and in managing organizational issues. Additionally, the ASRS and Mercer concurred that funding the Mellon Capital GTAA mandate over the next six to twelve months should be contingent upon the ASRS' ongoing positive assessment throughout 2008 of Mellon Capital's performance and demonstrated leadership capabilities of the new CIO.

Motion: Mr. Larry Trachtenberg moved to approve the hiring of Mellon Capital Management as an ASRS GTAA manager,

And

To fund with approximately \$500 million from the BGI GTAA passive portfolio, with no funding to occur beyond \$100 million without review and recommendation of the Asset Class Committee or IC, as appropriate.

Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions and 1 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the International Equity Investment Managers Reporting for the Quarter Ending 12/31/07

Mr. Gary Dokes, Mr. Dan Kapanak and Mr. Terry Dennison addressed the Board regarding the International Equity Investment Managers Reporting for the Quarter Ending December 31, 2007. Mr. Dokes stated that as of December 31, 2007, the total market value of the ASRS International Equity asset class was \$5.0 billion, or approximately 18% of the ASRS total fund.

Over the past several years, the ASRS International Equity Asset Class has experienced a few structural modifications which primarily have included a change in the asset class benchmark and the hiring of new international large-cap and small-cap investment managers.

The ASRS International Equity Asset Class Morgan Stanley Capital International (MSCI) Custom Benchmark (MSCI Europe, Australasia, and Far East (EAFE) Index through 9/30/05 and MSCI All Country World Index (ACWI) ex U.S. thereafter) saw impressive 17.1%, 19.4% and 23.4% annual returns over 1, 3 and 5 year periods, respectively, for period ending December 31, 2007.

8. Presentation, Discussion and Appropriate Action Regarding the Experience Study of the Plan and Health Insurance (HI) Plan

Mr. Charlie Chittenden addressed the Board regarding the Experience Study of the Plan and Health Insurance Supplement Program. Mr. Chittenden covered several considerations and recommendations including mortality, disability, withdrawal, retirement, salary scale and health insurance benefit elections. Mr. Chittenden also provided projections for the contribution rate and the funded status based on various returns.

Motion: Mr. Tom Connelly moved to accept the Five-year Experience Study and the recommended assumption changes for the Plan and Health Insurance Supplement Program and authorize staff to initiate any appropriate rule making activities.

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding the Experience Study of the Long Term Disability (LTD) Program

Mr. Charlie Chittenden addressed the Board regarding the Experience Study of the Long Term Disability (LTD) Program. Mr. Chittenden covered several considerations and recommendations similar to those covered in the Experience Study of the Plan and well as projections for contribution rate and funded status.

Motion: Mr. Chris Harris moved to accept the Five-year Experience Study and the recommended assumption changes for the Long Term Disability Program and authorize staff to initiate any appropriate rule making activities.

Mr. Jim McLaughlin seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

10. Presentation, Discussion and Appropriate Action Regarding the Experience Study of the System

Mr. Charlie Chittenden addressed the Board regarding the Experience Study of the System. Mr. Chittenden stated that new mortality assumptions that were adopted would be effective June 30, 2008. The new assumptions take into account the annual benefit of members.

Motion: Mr. Steve Zeman moved to accept the Five-year Experience Study for the System.

Mr. Dave Byers seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

11. Presentation, Discussion and Appropriate Action Regarding Governance Theory and Application and Potential Modifications to the ASRS Board Governance Handbook

Mr. Paul Matson, Director, addressed the Board regarding governance theory and application and potential modifications to the ASRS Board Governance Handbook. Mr. Matson stated that each Board committee reviewed its Charter and made recommendations at the Committee level for changes or modifications.

The Operations Committee clarified its charter to more accurately reflect its range of oversight and responsibility. The External Affairs Committee modified its charter to include oversight over agency communications programs. The Investment Committee had several changes including the bifurcation of ASRS investment policies and procedures and changes to the process of the hiring and firing of managers.

Mr. Matson also stated that the proposed changes include delegating the Consent Agenda portion of the Board agenda to staff for approval. Most of the items included in the consent agenda have been streamlined to very quick processes and it may be more efficient to have staff approve the items rather than the Board.

Mr. Matson also addressed two diagrams which outline the current and proposed processes for the hiring and firing of Investment Managers.

Dr. Keith Meredith, Trustee, asked that after a year, an official review of the changes take place in order to evaluate the proposed changes. Mr. Matson agreed that would be an appropriate plan.

Motion: Mr. Larry Trachtenberg moved to approve the changes recommended by each of the three Board Committees, as well as staff, to the Board Governance Policy Handbook,

And

Approve the attached Strategic Investment Policies as recommended by the Investment Committee.

Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

12. Director's Report

Mr. Paul Matson recognized an employee, Dave Vidoni, who had worked in the compliance department who passed away this month.

13. Possible Presentation Regarding Board Committee Updates

Mr. Steve Zeman, Vice Chair, External Affairs Committee (EAC), stated that the next EAC meeting would be in early May.

Mr. Larry Trachtenberg, Chair, Investment Committee (IC), said an IC meeting has been scheduled for June.

Mr. Dave Byers, Chair, Operations Committee (OC), stated that the next OC meeting would be April 24, 2008.

14. Board Requests for Agenda Items

There were no requests for agenda items.

15. Call to the Public

There were no members of the public who requested to address the Board.

16. The next ASRS Regular Board meeting is scheduled for Friday, May 16, 2008, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

17. Adjournment of the ASRS Board

Mr. Townsend adjourned the April 18, 2007 Board meeting at 11:15 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Schrode, Secretary

Date

Paul Matson, Director

Date